

IMANI Alert: Government Should Also Account for COVID-19 Savings in Tomorrow's Budget

Tomorrow, the Finance Minister will appear in Parliament to seek authorisation for his spending plans for the rest of the year. As is our custom, he shall also be asking that members ratify spending the Government has already made.

There is no doubt that this supplementary budget shall be the most radically divergent from an original budget that this country has ever seen. Since the Minister last went to Parliament in April to collect \$219 million in fiscal advances towards Government's pandemic response spending, more clarity has emerged as to how exactly the impact of COVID-19 ("COVID") has been felt on the country's finances.

While there is no gainsaying the fact of COVID's adverse effects on the country's fortunes, IMANI has become worried about the continued absence in the economic discussion of the equally real fact of **SAVINGS** being made due to COVID.

The fiscal adjustments and reallocations that have occurred in the wake of the pandemic have been presented continually by Government and many other commentators in two ledgers of the national accounts only: increased expenditure to support the social relief measures and the health response, and decreased revenues as a result of contraction in economic activity.

Virtually nothing has been said about "savings". Yet there must have been some. And, going forward, there *should* be more. There is also sound basis for asking whether some of the dislocations have even **benefitted** some sectors of the economy and thereby led to an increase in tax revenues in those narrow, lucky, segments.

Having seen very little evidence of any sign of accountability for potential savings and new income streams, IMANI is launching a call for ideas from major economic stakeholders about how best to ensure that the country does not lose sight of the importance of fiscal adjustments as a potentially significant source of revenue for the social relief and mitigation program.

In a moment of such considerable economic upheaval, creativity, open-mindedness, agility, management flexibility and transparency become important hallmarks of any governmental agenda to mobilise citizenry behind any set of policies. It is not sufficient to merely lament the depth of the crisis without also showing dexterity in making do with the limited opportunities and openings that this same crisis is providing for more efficient management of our resources.

To set the ball rolling, we shall be presenting preliminary insights into some of these potential savings in this and subsequent bulletins.

As a preliminary comment, IMANI is keen on communicating the primary insights behind its push so that it can garner sufficient public interest in this discussion. Future work with other stakeholders, particularly the business and industrial networks and membership associations in this country, should help lay out the

technical details. While this work will be difficult and any conclusions somewhat debatable, what is not in any doubt is that even a cursory glance through the budget justifies the position that there have been savings that can help offset some of the effects of the revenue losses and increased mitigation-related expenses.

The first area of emphasis in any analysis of potential savings is in the area of project postponements. The second area covers general administration and its associated goods and services. Lastly, we have deferred expenses as a result of debt servicing relief in various forms. Many government commitments have been put on hold, in many cases because counterparties themselves are realigning execution plans.

Even a perfunctory scan of the 2020 budget statement shows that several projects and planned activities of key governmental institutions including Ministries, Departments and Agencies (MDAs) and the Office of Government Machinery (OGM) will be impacted due to the Covid-19 pandemic.

As a result of these disruptions, considerable savings are expected, some of which shall be diverted to new priority areas. Defining those new priority areas should be more effective if there is greater transparency around the adjustments that are helping resource the adjustments.

Making resources available to create fiscal room as a consequence of expenditure reallocations throughout the budget, including postponements and withdrawals (in some cases) of capital expenditure and government flagship programme activities across several sectors of the economy is a standard practice even in normal times. After all, money is fungible and the consolidated fund is viewed as one large pot. We insist however that the scale of disruptions in the wake of COVID is so massive as to warrant special attention being paid to how exactly reallocations are proceeding in the unique context in which we find ourselves.

All too often, supplementary budgets in this country have been turned into simple laundry lists for the presentation of additional line items for rubber-stamping by Parliament. There is rarely any attempt to show through the budget review exercise how developments in economic management warranted project redesign and other contingent arrangements, and how those shifts in original intent have impacted the line items.

IMANI's position, and we believe it is shared by all right-thinking people and institutions in the country, is that COVID-19 has "done such a number" on the government's economic management that the traditional supplementary budgeting practice of simply introducing new areas of spending or asking for additional spending license in respect of existing line items cannot be countenanced in the current context.

Government has been given extra bargaining power by the pandemic to renegotiate certain costs for goods and services and alter certain payment timelines. A large number of planned travel activities, conferences, retreats, consultations, diplomatic

engagements, embassy openings, and the like have had to be shifted into other modes of doing business, including virtual and electronic. These modes are invariably cheaper and, in many cases, have served as real substitutes. An improvement of the Government's bargaining power should have reflected in payment terms and must have been properly documented in operational manuals to guide the rest of the government about the best means to generate savings for redeployment in economic stimulus and the pandemic response.

Going forward, Government now has a better idea of which programs can be dispensed with or replaced with virtual or similar substitutes with little impact on outcomes. But, more pressingly, government should tomorrow and in the conversation following the presentation of the supplementary budget account for the money it "made" from these creative adjustments even as it asks for more money. The diversion of spending from dispensable areas to stimulus and mitigation should have been deliberate and clever to have the right effect, and we want to know more.

Our preliminary analysis clearly shows that these fiscal adjustments should have yielded billions of cedis in "freed resources".

For example, the extant budget indicates a total amount of budgeted expenditure for goods and services, capital expenditure and government flagship programmes of **GHS19,871,033,229** prior to COVID, representing 20.27% of the entire budget for the year 2020. This amount can be broken down into **GHS7,763,668,451**, representing 39.1%, for government flagship programmes; **GHS8,330,827,244**, representing 41.9%, for goods and services; and **3,776,538,534**, representing 19%, for capital expenditure.

During our simulations and scenario modelling exercises, limited though they were, we identified a total of GHS9,797,124,732 in line items that could be isolated, representing 49.30%, of total budgeted for capital expenditure, government flagship programmes and goods and services. An amount constituting 9.99% of the entire budget for the year 2020. This involved **GHS4,056,380,764** for government flagship programmes, representing 41.4%; **GHS2,910,474,306** for goods and services, representing 29.7%; and **GHS2,830,269,662** for capital expenditure, representing 28.9%.

In short, even limited sensitivity analysis and financial modelling performed on only parts of the overall budget led to savings of **GHS3,567,326,880**, representing 17.95% of the affected outlay, from initially planned expenditure, which with limited fiscal management savvy must have been generated.

A further breakdown shows that of this amount, **GHS1,467,771,067** originated in capital expenditure, representing 41.2%; **GHS1,224,175,521** from government flagship programmes, representing 34.3%; and **GHS875,380,291.80** from the goods and services envelope, representing 24.5%.

These, admittedly provisional, figures represent very large sums of money. Even if further validation reduces the amounts by a considerable margin, they will still amount to a sizeable proportion of the total projected Government expenditure for the year. They make some of the social relief expenditures that government has been lamenting about pale into relative insignificance. The reported expenditure of nearly GHS180 million on COVID testing, for instance, could easily have fit into this freed up financial resources bucket.

It would be disappointing, therefore, if tomorrow the Minister of Finance makes no special effort to explain clearly how the Government has taken advantage of the pandemic to restructure certain expenditures, eliminate waste, rationalise many commitments, freed up resources, and more effectively utilised the savings thus generated in a creative effort to overcome the many woes he is sure to lament about tomorrow.